

AGENDA ITEM

147 JULY 2015

DATE: July 13, 2015

TO: Members, Planning and Budget Committee
Members, Board of Trustees

FROM: Lawrence C. Yee, Acting General Counsel
Dina E. Goldman, Acting Chief Assistant General Counsel

SUBJECT: Cost Benefit Analysis Policy for Major Expenditures

EXECUTIVE SUMMARY

As required by Business and Professions Code section 6145(b), the California State Auditor conducted a performance audit of the State Bar of California and released its report in June. The report included a recommendation that the Bar implement a policy requiring cost-benefit analysis for major projects, such as capital or IT projects that cost more than 2 million dollars. This item presents a policy requiring that a cost-benefit analysis be developed and presented to the Board for all major projects exceeding 2 million dollars before the Board authorizes any such project.

BACKGROUND

As required by Business and Professions Code section 6145(b), the California State Auditor conducted a performance audit of the State Bar of California and released its report in June. The report included the following recommendation:

To ensure that it can justify future expenditures that exceed a certain dollar level, such as capital or IT projects that cost more than \$2 million, the State Bar should implement a policy that requires accurate cost-benefit analyses comparing relevant cost estimates. The policy should include a requirement that the State Bar present the analyses to the board to ensure that it has the information necessary to make appropriate and cost-effective decisions. In addition, the State Bar should be clear about the sources of funds it will use to pay for each project.

DISCUSSION

To implement the recommendation of the State Auditor, staff has prepared a draft policy that will require staff to prepare and present to the Board a cost-benefit analysis of any major project or expenditure expected to exceed 2 million dollars. Under current policy, any project for consulting services, capital equipment, or technology purchases with anticipated expenditures

exceeding \$75,000 must be specifically identified in the annual budget process and approved by the Board of Trustees. The proposed new policy would require, in addition, for major projects or expenditures expected to exceed 2 million dollars, that staff prepare and present to the Board a cost-benefit analysis of the project before the Board's authorization of the project or expenditure. This analysis would be in addition to the request for proposal (RFP) procedures already required by statute and implemented by the Bar. The new policy provides that, where a particular project or expenditure will already have an RFP, staff may make the determination of whether the cost-benefit analysis should be performed before or after the RFP.

The complete proposed new policy appears below:

For all contracts, projects, and expenditures reasonably expected to exceed \$2,000,000, those amounts must be budgeted, or approved by a budget amendment. In addition, State Bar staff will develop and present a written cost-benefit analysis to the Board of Trustees before committing to, or making a binding agreement for the contract, project, or expenditure. The Board of Trustees, or the relevant Board committee, must then affirmatively approve the contract, project, or expenditure. All such cost-benefit analyses must discuss a recommended course of action and alternatives. This policy is intended to supplement rather than supplant the Request for Proposal (RFP) process conducted by staff. In cases of contracts, projects, or expenditures reasonably expected to exceed \$2,000,000 that necessarily involve an RFP, staff may determine whether the cost-benefit analysis is most usefully provided to the Board before or after the RFP issues.

FISCAL/PERSONNEL IMPACT

There will be some additional staff time required to perform the required cost-benefit analysis. However, as such analysis are already typical of Bar procurements, this impact is not expected to be substantial.

RULE AMENDMENTS

N/A

BOARD BOOK IMPACT

Tab 17, Article 3, Section 2, Page 16 of 19

BOARD COMMITTEE RECOMMENDATIONS

The Planning and Budget Committee recommends that the Board of Trustees approve the following resolution:

RESOLVED, that the Board of Trustees approve the following policy requiring cost-benefit analysis for major expenditures and direct staff to update the Board Book accordingly:

For all contracts, projects, and expenditures reasonably expected to exceed \$2,000,000, those amounts must be budgeted, or approved by a budget amendment. In addition, State Bar staff will develop and present a written cost-benefit analysis to the Board of Trustees before committing to, or making a binding agreement for the contract, project, or expenditure. The Board of Trustees, or the relevant Board committee, must then affirmatively approve the contract, project, or expenditure. All such cost-benefit analyses must discuss a recommended course of action and alternatives. This policy is intended to supplement rather than supplant the Request for Proposal (RFP) process conducted by staff. In cases of contracts, projects, or expenditures reasonably expected to exceed \$2,000,000 that necessarily involve an RFP, staff may determine whether the cost-benefit analysis is most usefully provided to the Board before or after the RFP issues.